

05 November 2023

India | Equity Research | Q2FY24 result review

State Bank of India

Banking

NIM broadly stable; RoA still >1.0% despite additional wage provision hit

State Bank of India (SBI) reported Q2FY24 PAT of INR 143.3bn (up 8% YoY; 5% beat), led by 8% YoY decline in operating earnings, but offset by negligible provisioning. While NII growth was healthy at 12% YoY (NIM broadly stable YoY / QoQ), the bank saw massive 47% YoY rise in staff costs as it beefed up wage bipartite provisions (now providing at 14% wage hike vs 10% earlier). Adjusted for additional (and non-recurring) wage provisions, calculated RoA would have been strong and steady at ~1.2% (vs reported RoA at 1.0%). The performance on loan growth and asset quality remains strong. We continue to see ~0.3/0.5% net slippages for FY24/25E which, along with 64bps net NPAs and ~35% PCR on RSA, make us comfortable on continued benign credit cost.

SBI has amongst the lowest domestic LDR (64%) and thus much scope to improve, though the progress so far has been gradual underpinning our ~10bps YoY compression in NIM for FY25E. While we agree RoA may have peaked, we highlight strong visibility of ~16% RoE for FY25/26E without any material asset quality risk along with stable business market share. We acknowledge SBI has relatively lower CET 1 across peers, but take comfort in strong internal accruals, which are sufficient to fund near-term envisaged credit growth. Improvement on fee and thus core PPOP could lead to swift re-rating of the stock, in our view. Maintain **BUY** with an unchanged target price of INR 730, valuing the core banking business at ~1.3x FY25E ABV and INR 202 per share of subs. Key risk is higher-than-estimated slippages.

Healthy advances growth; SBI confident of 14% YoY growth

Overall net advances growth was healthy at 3.4% QoQ and 13.4% YoY. Domestic gross advance growth was healthy at 13% YoY, while overseas growth was a bit slower at ~8% YoY. Within domestic, credit growth in SME segment has risen from 10-13% YoY earlier to ~23% YoY (up 5% QoQ) on improved credit delivery and focused approach (have put around 2,000 RMs). Overall retail growth was healthy at ~3.3% QoQ, though YoY growth has cooled off to ~16%. Growth in retail was broad-based across segments at 3-4% QoQ. Xpress credit saw 3.1% QoQ (vs 2.2% in Q1) and ~18% YoY growth.

Financial Summary

Y/E March	FY23A	FY24E	FY25E	FY26E
NII (INR bn)	1,448.4	1,592.2	1,697.9	1,888.1
Op. profit (INR bn)	837.1	935.6	982.9	1,082.6
Net Profit (INR bn)	502.3	605.5	600.5	670.0
EPS (INR)	56.3	67.8	67.3	75.1
EPS % change YoY	58.6	20.5	(0.8)	11.6
ABV (INR)	318.0	373.1	426.3	485.1
P/BV (x)	1.7	1.5	1.3	1.1
P/ABV (x)	1.3	1.1	0.9	0.7
Return on Assets (%)	1.0	1.0	0.9	0.9
Return on Equity (%)	18.1	18.7	16.1	15.8

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Market Data

Market Cap (INR)	5,160bn
Market Cap (USD)	61,967mn
Bloomberg Code	SBIN IN
Reuters Code	SBI.BO
52-week Range (INR)	630 /499
Free Float (%)	43.0
ADTV-3M (mn) (USD)	119.5

Price Performance (%)	3m	6m	12m
Absolute	(2.1)	3.3	0.8
Relative to Sensex	(1.1)	(3.0)	(6.4)

ESG Disclosure	2021	2022	Change
ESG score	49.5	52.8	3.3
Environment	30.2	39.2	9.0
Social	33.3	34.3	1.0
Governance	84.9	84.9	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
PAT	7	3

Previous Reports

02-10-2023: [Company Update](#)

05-08-2023: [Q1FY24 results review](#)

SBI ruled out any early signs of portfolio weakness here. It further added ~83% of Xpress credit customers are deployed in armed forces or government employees and ~12% in reputed corporates/public sector companies.

Corporate book was flattish QoQ (up 7% YoY) as the bank has been conscious on both pricing and quality. It added corporate pipeline remains strong with INR 3.4trn worth of proposals under pipeline and INR 1.4trn worth of loans pending for disbursements.

Overall, bank would endeavour to grow >14% YoY in FY24 with SME and retail being growth drivers. We are building in loan growth at ~14% CAGR for FY24-25E.

NIM declines 4bps QoQ; domestic LDR low at 64% and has much scope for improvement though the progress so far has been slow

Deposits growth was healthy at ~3.5% QoQ and 11.9% YoY. CASA deposits were flattish QoQ, but up 5% YoY and now constitute 40.2% of total deposits vs 41.8% QoQ. TD growth, however, has been much stronger at 6% QoQ and 17% YoY which aided overall deposits momentum.

Global as well as domestic margins for the bank fell 4bps QoQ to 3.29% and 3.43%, respectively. Around 38% of loans are linked to MCLR, 27% are linked to repo / T-bills while ~31% are fixed. The bank believes a large part of MCLR re-pricing is already over. It has kept its term deposit rates broadly unchanged since Feb'23 and believes a substantial part of the re-pricing has already happened. Based on residual re-pricing, it estimates domestic NIM could see small 3-5bps decline from current levels. It would endeavour to push credit to deposits ratio to offset the hit. We highlight that at 64%, SBI has one of the lowest LDRs (domestic) across peers, though the improvement has been somehow slow. While we concur on the bank's argument of retail TD growth being linked to franchise, we believe the bank can be more judicious in bulk deposits. We estimate ~10bps QoQ NIM decline for Q3FY24E. Our calculated FY24E NIM is flattish YoY and we see around 10bps decline for FY25E.

Asset quality remains strong; net NPAs at 64bps

Gross slippages declined QoQ (partly due to bank's unique slippage recognition policy) and came in at INR 40.8bn (vs INR 78.7bn QoQ) or 49bps vs 97bps QoQ. Net slippages also improved sharply and were negligible at 1bp vs 53bps QoQ. Headline GNPA declined 5% QoQ while NNPA fell 7% QoQ. GNPA ratio declined 21bps QoQ to 2.55% while net NPA ratio declined 7bps QoQ to 0.64%. PCR improved further to 75.4% vs 74.8% QoQ. PCR including technical w-offs stood flattish QoQ at >91%.

Residual stress manageable; credit cost to remain benign

Restructured book declined QoQ to INR 209bn, or 62bps of loans vs 70bps QoQ. The bank has ~35% PCR on restructured book. SMA 1+ 2 book (CRILC data) declined QoQ and remains comfortable at 12bps of loans (vs 22bps QoQ). The bank does not see any stress or early signs of stress in unsecured personal loans.

Reported credit cost for Q2FY24 came in at 22bps (vs 32bps QoQ). Basis improved performance towards certain standard (though stressed) exposures, the bank has written back INR 12bn worth of standard asset provisions in the quarter. It has ~99% PCR (including technical write-offs) on corporate GNPA. We estimate net slippages to be comfortable at ~0.3/0.5% for FY24/25E, driving benign credit cost.

Opex rises due to beefing-up provisions on wage bipartite; reported RoA still strong at >1.0% (adjusted RoA ~1.2%)

Overall fee income growth was lacklustre though cross-sell fee (~40% YoY) remains a bright spot. Salary costs declined 9% YoY though the bank has seen a sharp rise (>50% YoY) in provisions for employee. It was earlier providing for wage bipartite assuming 10% hike. It has now increased the wage hike assumption to 14% and has thus incurred additional INR 34.17bn of provisions in Q2.

Due to a sharp rise in staff cost (47% YoY), the bank reported 8% YoY decline in operating profits. Driven by negligible provisioning, the bank reported 8% YoY rise in PAT to INR 143.3bn (5% beat). Reported RoA came in at 1.01%. Adjusting for additional (and non-recurring) wage hike provisions, RoA would have been ~1.2%, broadly similar to the last two quarters.

Other highlights

CET 1 stood at 9.94% (vs 10.19% QoQ). However, including H1FY24 PAT, CET 1 would be >11.0% and thus, much comfortable. RWA density stands low at 49% (vs 50% QoQ). YONO is expanding rapidly, aiding cross sell and is envisaged as a separate distribution channel. The bank has made YONO accessible to non-SBI customers as well and the initial results have been encouraging. It has launched pre-approved business loans for SME segment and has disbursed INR 18bn.

Exhibit 1: Q2FY24 result review

	Q2FY23	Q2FY24	YoY (%)	Q1FY24	QoQ (%)
Financial Highlights (INR mn)					
Interest Earned	7,98,596	10,13,788	26.9	9,59,755	5.6
Interest Expended	4,46,762	6,18,788	38.5	5,70,705	8.4
Net Interest Income	3,51,835	3,95,000	12.3	3,89,050	1.5
Other Income	88,743	1,07,906	21.6	1,20,634	-10.6
Total Income	8,87,339	11,21,694	26.4	10,80,388	3.8
Total Net Income	4,40,577	5,02,906	14.1	5,09,683	-1.3
Staff Expenses	1,28,674	1,89,264	47.1	1,66,007	14.0
Other operating expenses	1,00,703	1,19,476	18.6	90,707	31.7
Operating Profit	2,11,201	1,94,166	-8.1	2,52,969	-23.2
Provision & Contingencies	30,387	1,153	-96.2	25,013	-95.4
Provision for tax	48,168	49,713	3.2	59,113	-15.9
Reported Profit	1,32,646	1,43,300	8.0	1,68,843	-15.1
Other Highlights (INR bn)					
Advances	29,513	33,452	13.3	32,350	3.4
Deposits	41,903	46,892	11.9	45,312	3.5
Gross NPA	1,068	870	-18.6	913	-4.8
Gross NPA (%)	3.52	2.55	-97 bps	2.76	-21 bps
Net NPA	236	214	-9.4	230	-7.1
Net NPA (%)	0.80	0.64	-16 bps	0.71	-7 bps
Provision Coverage (%)	77.9	75.4	-248 bps	74.8	63 bps

Source: Company data, I-Sec research

Exhibit 2: RoA tree (%)

	Q4FY23	Q1FY24	Q2FY24
Interest Income	6.9	6.9	7.1
Interest Expense	3.9	4.1	4.4
NII	3.0	2.8	2.8
Non-interest income	1.0	0.9	0.8
- Fee income	0.7	0.5	0.5
- Trading gains	0.1	0.3	0.1
- Recovery from TWO	0.2	0.1	0.1
Net Revenue	4.0	3.7	3.5
Opex	2.2	1.9	2.2
Reported PPOP	1.8	1.8	1.4
Core PPOP	1.5	1.5	1.1
Provisioning	0.2	0.2	0.0
PBT	1.6	1.6	1.4
Tax	0.3	0.4	0.3
RoA	1.2	1.2	1.0
Leverage	16.7	16.5	16.2
RoE	20.6	20.1	16.3

Source: Company data, I-Sec research

Exhibit 3: Key ratios and trends

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Loan growth (YoY)	6.5	8.9	11.6	15.8	20.8	18.6	17.0	14.9	13.3
Loan growth (QoQ)	0.5	5.5	6.0	3.0	4.8	3.6	4.6	1.1	3.4
Loan composition (%)									
Corporate	31.0	30.4	31.8	31.0	31.1	30.2	30.6	30.4	29.2
Retail	37.0	36.9	36.7	36.7	36.4	36.8	36.9	37.2	37.2
SME	11.5	11.9	11.2	11.1	10.7	11.5	11.2	11.4	11.6
Overseas	15.3	15.5	15.1	16.0	16.5	15.9	15.4	14.9	15.8
Agri	5.2	5.2	5.2	5.1	5.2	5.6	5.9	6.0	6.2
Liability profile & margins									
CASA %	44.8	44.2	43.8	43.7	42.9	42.7	42.1	41.8	40.2
CA %	6.6	5.9	6.5	5.8	5.6	5.4	6.4	6.3	5.4
SA %	38.2	38.3	37.3	37.9	37.4	37.3	35.7	35.5	34.8
Global NIM %	3.09	3.11	3.15	3.02	3.32	3.50	3.60	3.33	3.31
Domestic NIM %	3.33	3.35	3.36	3.23	3.55	3.69	3.84	3.47	3.45
Asset quality									
GNPA (%)	4.9	4.5	4.0	3.9	3.5	3.1	2.8	2.8	2.6
NNPA (%)	1.5	1.3	1.0	1.0	0.8	0.8	0.7	0.7	0.6
PCR (%)	70.1	71.2	75.0	75.1	77.9	76.1	76.4	74.8	75.4
Slippages (INR bn)	43	26	36	101	24	32	35	79	41
Slippages (%)	0.7	0.4	0.6	1.7	0.4	0.5	0.5	1.1	0.6
CAR (%)	13.4	13.2	13.8	13.4	13.5	13.3	14.7	14.6	14.3
Tier I (%)	11.0	10.9	11.4	11.2	11.1	10.8	12.1	12.0	11.8
CET 1 (%)	9.8	9.4	9.9	9.7	9.5	9.3	10.3	10.2	9.9
RoE decomposition % (on total assets)									
NII	2.7	2.6	2.5	2.5	2.8	2.9	3.0	2.8	2.8
Other Income (ex-treasury)	0.7	0.7	1.0	0.7	0.7	0.6	0.9	0.6	0.6
Treasury	0.0	0.0	0.0	-0.5	0.0	0.2	0.1	0.3	0.1
Opex	2.5	1.8	1.9	1.7	1.8	1.8	2.2	1.9	2.2
PPOP	0.9	1.6	1.6	1.0	1.7	1.9	1.8	1.8	1.4
Provisioning Cost	0.0	0.6	0.6	0.4	0.2	0.4	0.2	0.2	0.0
PBT	0.9	1.0	1.0	0.7	1.4	1.5	1.6	1.6	1.4
Tax	0.2	0.3	0.3	0.2	0.4	0.4	0.3	0.4	0.3
RoA	0.7	0.7	0.7	0.5	1.0	1.1	1.2	1.2	1.0
Leverage (x)	17.5	17.5	17.6	17.5	17.1	16.8	16.7	16.5	16.2
RoE	11.5	12.4	13.1	8.5	17.8	18.2	20.6	20.1	16.3

Source: Company data, I-Sec research

Exhibit 4: Gross advances growth healthy at 3.3% QoQ

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY %	QoQ %
Loan book (INR bn)											
Retail Personal	9,045	9,522	10,023	10,341	10,749	11,245	11,792	12,043	12,434	15.7	3.3
Agri	2,150	2,215	2,282	2,299	2,386	2,470	2,586	2,641	2,739	14.8	3.7
SME	2,798	3,072	3,055	3,128	3,169	3,506	3,593	3,699	3,890	22.8	5.2
Corporates	7,568	7,834	8,707	8,740	9,170	9,250	9,798	9,822	9,777	6.6	-0.5
Domestic Advances	21,561	22,642	24,068	24,508	25,474	26,472	27,768	28,204	28,840	13.2	2.3
Foreign Office Advances	3,747	4,004	4,119	4,498	4,877	4,864	4,924	4,833	5,272	8.1	9.1
Whole bank advances	25,308	26,646	28,187	29,006	30,351	31,336	32,692	33,037	34,113	12.4	3.3
Mix (%)										YoY (bps)	QoQ (bps)
Retail Personal	35.7	35.7	35.6	35.7	35.4	35.9	36.1	36.5	36.5	104 bps	0 bps
Agri	8.5	8.3	8.1	7.9	7.9	7.9	7.9	8.0	8.0	17 bps	4 bps
SME	11.1	11.5	10.8	10.8	10.4	11.2	11.0	11.2	11.4	96 bps	21 bps
Corporates	29.9	29.4	30.9	30.1	30.2	29.5	30.0	29.7	28.7	-155 bps	-107 bps
Domestic Advances	85.2	85.0	85.4	84.5	83.9	84.5	84.9	85.4	84.5	61 bps	-83 bps
Foreign Office Advances	14.8	15.0	14.6	15.5	16.1	15.5	15.1	14.6	15.5	-61 bps	83 bps
Total Wholebank advances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	NA	NA
Growth - YoY (%)											
Retail Personal	15.2	14.6	15.1	18.6	18.8	18.1	17.6	16.5	15.7		
Agri	1.9	3.7	6.6	9.8	11.0	11.5	13.3	14.8	14.8		
SME	0.9	4.6	9.5	10.0	13.2	14.2	17.6	18.3	22.8		
Corporates	-3.9	-0.6	6.4	10.6	21.2	18.1	12.5	12.4	6.6		
Domestic Advances	4.6	6.5	10.3	13.7	18.2	16.9	15.4	15.1	13.2		
Foreign Office Advances	16.2	21.3	15.4	22.4	30.1	21.5	19.6	7.4	8.1		
Whole bank advances	6.2	8.5	11.0	14.9	19.9	17.6	16.0	13.9	12.4		
Growth - QoQ (%)											
Retail Personal	3.7	5.3	5.3	3.2	3.9	4.6	4.9	2.1	3.3		
Agri	2.7	3.0	3.0	0.7	3.8	3.5	4.7	2.1	3.7		
SME	-1.6	9.8	-0.5	2.4	1.3	10.7	2.5	3.0	5.2		
Corporates	-4.3	3.5	11.1	0.4	4.9	0.9	5.9	0.2	-0.5		
Domestic Advances	0.0	5.0	6.3	1.8	3.9	3.9	4.9	1.6	2.3		
Foreign Office Advances	2.0	6.8	2.9	9.2	8.4	-0.3	1.3	-1.9	9.1		
Whole bank advances	0.3	5.3	5.8	2.9	4.6	3.2	4.3	1.1	3.3		

Source: Company data, I-Sec research

Exhibit 5: TD growth has been healthy aiding overall deposits growth

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY %	QoQ %
Deposits (INR bn)											
CA	2,528	2,272	2,619	2,337	2,326	2,277	2,814	2,852	2,530	8.8	-11.3
SA	14,536	14,735	15,132	15,340	15,652	15,730	15,815	16,078	16,330	4.3	1.6
CASA	17,064	17,007	17,751	17,677	17,978	18,007	18,629	18,931	18,860	4.9	-0.4
TD	21,032	21,471	22,765	22,780	23,925	24,129	25,609	26,382	28,032	17.2	6.3
Total	38,096	38,478	40,515	40,457	41,903	42,136	44,238	45,312	46,892	11.9	3.5
CD ratio	64.1	67.0	67.5	69.6	70.4	72.6	72.3	71.4	71.3	91 bps	-6 bps
Deposits mix (%)											
										YoY (bps)	QoQ (bps)
CA	6.6	5.9	6.5	5.8	5.6	5.4	6.4	6.3	5.4	-16 bps	-90 bps
SA	38.2	38.3	37.3	37.9	37.4	37.3	35.7	35.5	34.8	-253 bps	-66 bps
CASA	44.8	44.2	43.8	43.7	42.9	42.7	42.1	41.8	40.2	-268 bps	-156 bps
TD	55.2	55.8	56.2	56.3	57.1	57.3	57.9	58.2	59.8	268 bps	156 bps
Total	100	100	100	100	100	100	100	100	100		
Growth - YoY (%)											
CA	10.5	10.3	10.4	7.2	7.7	6.7	4.5	4.8	4.3		
SA	19.2	7.9	-5.4	2.3	-8.0	0.2	7.5	22.0	8.8		
CASA	11.7	10.0	7.8	6.5	5.4	5.9	4.9	7.1	4.9		
TD	8.2	7.9	11.9	10.5	13.8	12.4	12.5	15.8	17.2		
Total	9.8	8.8	10.1	8.7	10.0	9.5	9.2	12.0	11.9		
Growth - QoQ (%)											
CA	1.6	1.4	2.7	1.4	2.0	0.5	0.5	1.7	1.6		
SA	10.7	-10.1	15.3	-10.8	-0.5	-2.1	23.6	1.3	-11.3		
CASA	2.8	-0.3	4.4	-0.4	1.7	0.2	3.5	1.6	-0.4		
TD	2.0	2.1	6.0	0.1	5.0	0.9	6.1	3.0	6.3		
Total	2.4	1.0	5.3	-0.1	3.6	0.6	5.0	2.4	3.5		

Source: Company data, I-Sec research

Exhibit 6: Reported RoA declines ~20bps QoQ due to one-time hit of wage-related provisions

Return ratios	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
RoE (%)	13.2	14.0	13.9	10.1	16.1	18.6	19.4	24.4	22.6	649 bps	-185 bps
RoA (%)	0.66	0.71	0.74	0.48	1.04	1.08	1.23	1.22	1.01	-3 bps	-21 bps

Source: Company data, I-Sec research

Exhibit 7: Reported CET-1 fell 25bps QoQ to 9.94%, but including H1FY24 PAT, it is healthy at ~11.0%

Capital adequacy ratio (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
CET-1	9.76	9.38	9.94	9.72	9.53	9.26	10.27	10.19	9.94	41 bps	-25 bps
Tier-1	11.02	10.91	11.42	11.15	11.12	10.80	12.06	11.97	11.78	66 bps	-19 bps
CRAR	13.35	13.23	13.83	13.43	13.51	13.27	14.68	14.56	14.28	77 bps	-28 bps

Source: Company data, I-Sec research

Exhibit 8: Domestic as well as global margins moderate by 4bps QoQ

Net Interest Margins	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
NIM - Global (%)	3.09	3.11	3.15	3.02	3.32	3.50	3.60	3.33	3.29	-3 bps	-4 bps
NIM - Domestic (%)	3.33	3.35	3.36	3.23	3.55	3.69	3.84	3.47	3.43	-12 bps	-4 bps
NIM - International (%) (cumulative)	1.06	1.06	1.07	1.32	1.44	1.67	1.69	2.24	2.19	75 bps	-5 bps

Source: Company data, I-Sec research

Exhibit 9: Asset quality continues to improve

Asset quality	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Gross NPA (INR bn)	1,239	1,200	1,120	1,133	1,068	983	909	913	870	-18.6	-4.8
Gross NPA (%)	4.90	4.50	3.97	3.91	3.52	3.14	2.78	2.76	2.55	-97 bps	-21 bps
Net NPA (INR bn)	371	345	280	283	236	235	215	230	214	-9.4	-7.1
Net NPA (%)	1.52	1.34	1.02	1.00	0.80	0.77	0.67	0.71	0.64	-16 bps	-7 bps
Provision coverage ratio (%)	70	71	75	75	78	76	76	75	75	-248 bps	63 bps
Restructured book (INR bn)	383	400	380	358	273	260	243	227	209	-23.7	-8.0
As a % of loan book	1.57	1.55	1.39	1.27	0.93	0.85	0.76	0.70	0.62	-30 bps	-8 bps
SMA-1 (INR mn)	43,390	25,680	29,890	51,690	65,760	30,590	24,650	56,380	21,800	-66.8	-61.3
As a % of loan book	0.18	0.10	0.11	0.18	0.22	0.10	0.08	0.17	0.07	-16 bps	-11 bps
SMA-2 (INR mn)	23,510	15,990	5,550	18,140	19,210	16,880	7,950	15,830	17,840	-7.1	12.7
As a % of loan book	0.10	0.06	0.02	0.06	0.07	0.06	0.02	0.05	0.05	-1 bps	0 bps
SMA-1 + SMA-2 (INR mn)	66,900	41,670	35,440	69,830	84,970	47,470	32,600	72,210	39,640	-53.3	-45.1
As a % of loan book	0.27	0.16	0.13	0.25	0.29	0.16	0.10	0.22	0.12	-17 bps	-10 bps
P&L total provisions (INR mn)	1,888	69,740	72,375	43,924	30,387	57,606	33,157	25,013	1,153	-96.2	-95.4
As a % of loan book	0.03	1.08	1.06	0.62	0.41	0.75	0.41	0.31	0.01	-40 bps	-30 bps

Source: Company data, I-Sec research

Exhibit 10: Slippages moderate QoQ, in line with seasonal trend

Movement of GNPA (INR bn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Opening balance	1,343	1,239	1,200	1,120	1,133	1,068	983	909	913	-19.4	0.4
Add: Slippages	43	26	36	101	24	32	35	79	41	67.2	-48.2
Ann. Slippage ratio	0.70	0.40	0.53	1.44	0.33	0.42	0.43	0.97	0.49	16 bps	-49 bps
Less: Recovery + Upgrades	74	23	68	52	52	16	42	36	40	-22.9	11.3
Less: Write-offs	72	42	49	37	37	100	67	39	44	19.4	14.4
Closing balance	1,239	1,200	1,120	1,133	1,068	983	909	913	870	-18.6	-4.8
Net slippages	-31	3	-32	49	-28	16	-7	43	1	-102.4	-98.5
Ann. Net Slippage ratio	-0.51	0.04	-0.46	0.70	-0.37	0.20	-0.09	0.53	0.01	38 bps	-52 bps

Source: Company data, I-Sec research

Exhibit 11: QoQ decline in all sub-segments of retail GNPA

Retail GNPA (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
Home Loans	0.97	0.89	0.79	0.84	0.75	0.74	0.69	0.76	0.74	-1 bps	-2 bps
Auto Loans	1.03	0.89	0.69	0.76	0.58	0.52	0.43	0.47	0.44	-14 bps	-3 bps
Xpress Credit	0.70	0.72	0.59	0.76	0.65	0.63	0.60	0.70	0.69	4 bps	-1 bps
Gold Loans	0.77	0.50	0.23	0.35	0.16	0.14	0.09	0.22	0.18	2 bps	-4 bps
Other Personal Loans	1.52	1.40	1.03	1.12	0.84	1.01	0.68	0.73	0.66	-18 bps	-7 bps
Total Retail	0.96	0.89	0.74	0.83	0.71	0.70	0.63	0.71	0.68	-3 bps	-3 bps

Source: Company data, I-Sec research

Exhibit 12: GNPA ratio declines QoQ across segments

Segmental GNPA (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
Retail	4.51	4.18	3.77	3.73	3.43	3.24	3.02	3.04	2.88	-55 bps	-16 bps
Agri	14.79	14.42	13.33	12.95	12.25	12.03	11.47	11.28	10.66	-159 bps	-62 bps
Personal	0.96	0.89	0.74	0.83	0.71	0.70	0.63	0.71	0.68	-3 bps	-3 bps
SME	8.10	7.01	6.55	6.57	6.03	5.20	4.76	4.77	4.41	-162 bps	-36 bps
Corporate	7.62	7.09	5.96	5.96	5.32	4.37	3.55	3.42	3.09	-223 bps	-33 bps
International	0.84	0.62	0.55	0.52	0.42	0.41	0.40	0.37	0.35	-7 bps	-2 bps
Total	4.90	4.50	3.97	3.91	3.52	3.14	2.78	2.76	2.55	-97 bps	-21 bps

Source: Company data, I-Sec research

Exhibit 13: SoTP valuation

Parameters	Value of Business (INR Bn)	Stake (%)	SOTP Value Per share	Comments
SBI Life Insurance	1,651	55	103	At I-Sec Target Market cap
SBI General Insurance*	99	70	8	25x FY25E PAT
SBI AMC*	630	63	44	7% FY25E AUM
SBI Cards	933	69	72	At I-Sec Target Market cap
SBI Capital*	112	100	13	13x FY25E PAT + NSE stake value
Yes Bank	438	26	13	At I-Sec Target Market cap
Value of Subsidiaries	1,651	55	252	
Holding Co. discount			50	
Holding Co. discount (in %)			20	
Subs Value post Holdo Disc.			202	
SBI Bank - Core book			528	1.3x FY25E ABV
Target Price (INR)			730	

Source: Company data, I-Sec research

Q2FY24 earnings call takeaways

Advances

- **Maintains loan growth guidance of 14% for FY24.**
- **Xpress credit** portfolio quality is healthy. Nearly 83% of Xpress credit customers are deployed in armed forces or government employees and 12% in reputed corporates/public sector companies.
- SBI has seen improvement in utilisation limit for term loans during the quarter.
- Corporate growth should improve to lower single digit. The bank has **INR 3.4trn as pipeline of proposals and another INR 1.4trn is pending for disbursements.**
- **For international book, SBI would like to confine growth rates to current levels.**
- SBI is building SME book via vendor finance, distribution finance etc. Rise in SME book is driven by 57% YoY growth in working capital loans led by enhanced scale, utilisation.

Liability

- SBI is trying to increase focus on CASA.
- It is trying to reduce dependence on government deposits.
- Opened 4mn+ SA during the quarter.

Margins

- Loan book break up:
 - 38% MCLR
 - 27% EBLR
 - 31% fixed rate
 - 4% others including T-bill
- Rise in cost of deposits led to decline in margins for the quarter.
- Deposit repricing is likely to complete by Q3-end.
- SBI does not believe there is need to hike SA rates.
- Entire effect of MCLR seems to be largely captured.
- **Expect domestic margins to be stable around the current level by year-end or may be it could see compression by 3-5bps.**
- **To maintain overseas margin at current levels.**

Asset quality

- PCR for corporate book stood at 99.55%.
- Basis portfolio performance, it has reversed INR 12bn of standard asset provisions in Q2. It has a policy of creating contingent provisions but the situation warranted the release of provisions this time.
- Within SME, the stress is higher in lower ticket size (<Rs5mn) due to erratic cash flows.
- SBI is aware of the noise in unsecured personal loans of below 50k; however, it does not sanction personal loans in that ticket size. Due to re-payment, certain PL may have come to that size but it does not see any stress.

YONO

- Sourced 61% SA accounts digitally through YONO.
- INR 1.9bn fee income earned via YONO on account of sale of third-party products.
- YONO has been opened for customers of other banks.

Miscellaneous

- **By FY24-end, bank expects CRAR to be around 15.23% and CET-1 of <11%.**
- QoQ growth in investment book is largely coming from G-sec and SDL.

Q1FY24 earnings call takeaways

Economy outlook

- Indian economy continues to exhibit stronger than expected growth momentum
- India Real GDP growth is expected at 6.5% for FY24
- Headwinds from prolonged geopolitical tension and slowing external demand are key risks to outlook
- **Credit growth continues to grow in double digit and has become broad based across sectors**
- **Expect system credit growth at 14-15% in FY24 and deposits growth at 12-13%. SBI is likely to show similar growth for FY24.**

Quarterly performance

- **Annualised RoA at 1.22% for the quarter**
- *In Q1, bank doesn't have the benefit of recoveries and upgrades and Q4 usually has certain one-offs due to seasonality, which are absent in Q1. Hence, bank is of the view that for Q1, YoY comparison should be made and not QoQ.*

Margins

- **The bank highlighted some one-offs in Q4FY23 and thus QoQ NIM compression should be adjusted.**
- **It aims to maintain domestic NIMs at 3.47% (reported in Q1) for FY24 vs. 3.58% for FY23.**
- The bank expects cost of deposits to stabilise around current levels in the near-term.
- Floating rate book is 75% which would include MCLR, EBLR, T-Bill linked etc., while 25% is fixed
- MCLR is usually 6 month reset and EBLR loans are repo linked.

Advances

- **INR 3.5trn of corporate proposals of which INR 2.3trn is in pipeline and INR 1.2trn are already sanctioned. Of the total proposals, INR 2.7trn is from the private sector.**
- NBFCs and Renewables are key growth areas. Under NBFCs, growth is happening in the highly rated NBFCs

- **SME and Agri segment posted healthy growth in loan book. Bank also stressed selective growth in Agri (from asset quality perspective).**
- **Bank is cautious on international business operations.**
- **In all likelihood, bank expects credit growth of 15% YoY for FY24**

Xpress Credit

- Xpress credit is as good as it used to be in the past in terms of asset quality. It does not see any challenge in Xpress credit asset quality even in early delinquencies.
- Rise in NPA QoQ is due to some employees who are not getting salary on time in some of the state government entities.
- **94% of Express credit is given to salaried segment, of which, predominantly are employed with Central govt / state government / defence, railways, PSU enterprises etc. Only about 4-5% are working with well rated large corporates.**
- **The bank is hopeful of some rise in credit growth in Xpress credit during Festive season.**

Deposits

- **Domestic deposits growth healthy** driven by growth in CA and TD
- Pre-pandemic CASA used to be 40% at the system level, during pandemic it went until 44% and then currently it is around 42%.
- Bank is carrying excess SLR to the tune of INR 4trn.
- The bank is cognizant of higher TD rates in select bucket but that is strategic.
- Every month, bank is seeing deposit repricing to the tune of INR 1.2trn - 1.4trn. **The bank opines that almost entire TD book could get repriced in around 12 months.**

Asset quality

- GNPA down 115bps YoY at 2.76%, continues to be at the **lowest level in 10 years**
- Slippage ratio has improved 44bps YoY
- **Consistently improving asset quality is also reflected in lower credit cost**
- **Provision on restructured book around 30%**
- **Targeting Agri NPA to be in single digit by FY24 (from 11.28% in Q1FY24).**
- Slippages break-up
 - INR 24bn retail personal
 - INR 23bn Agri
 - INR 24bn SME
- Recoveries that have happened in the month of July from Q1FY24 slippages:
 - INR 7bn retail personal
 - INR 3bn Agri
 - INR 6bn SME

Capital

- Bank remains well capitalised and it can **support loan book growth of INR 7trn with the current capital.**
- The bank ruled out the monetization of SBI MF in the near-term.

Opex and fee income

- **Bank has started doing wage revision provision from Nov'22 onwards to the tune of INR 5bn per month. Currently, bank is providing for wage revision by assuming 10% wage hike.**

- 60% of employees are in defined contribution scheme, up 100 bps YoY. Around 40% are on defined benefit.
- Loan processing charges was lower, which is a kind of temporary situation. Also, bank had some one-offs in Q1FY23, which is leading to lower processing charges on YoY basis.
- Plan to add ~300 branches in FY24
- The bank is a **net purchaser for PSLC**. It has large corporate book and thus may not have much scope to earn PSLC income.
- **The non-staff opex is lower YoY**, in-part as the bank is now amortizing PSL expenses vs up-fronting till last year.

Miscellaneous

- Recently, it has launched YONO for every Indian
- **YONO is a distribution platform for the bank and hence no idea of spinning off YONO**
- Most of the subsidiaries are leaders in their own segment.

Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	57.5	57.5	57.5
Institutional investors	35.1	35.2	35.1
MFs and other	13.1	12.6	12.0
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	10.3	10.5	10.5
FIIIs	11.7	12.1	12.6
Others	7.4	7.3	7.4

Source: Bloomberg, I-Sec research

Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Interest income	3,321,031	4,099,026	4,545,400	5,107,073
Interest expense	1,872,626	2,506,796	2,847,478	3,218,952
Net interest income	1,448,405	1,592,230	1,697,922	1,888,121
Non-interest income	366,156	477,194	506,335	569,180
Operating income	1,814,561	2,069,424	2,204,257	2,457,300
Operating expense	977,431	1,133,781	1,221,334	1,374,653
Staff expense	572,918	674,820	698,494	775,328
Operating profit	837,130	935,643	982,924	1,082,648
Core operating profit	850,674	845,643	907,924	1,002,648
Provisions & Contingencies	165,073	117,437	179,051	185,769
Pre-tax profit	672,056	818,206	803,873	896,879
Tax (current + deferred)	169,732	212,734	203,380	226,910
Net Profit	502,325	605,472	600,493	669,968
Adjusted net profit	502,325	605,472	600,493	669,968

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(% , year ending March)

	FY23A	FY24E	FY25E	FY26E
Cash and balance with RBI/Banks	3,078,996	3,544,589	3,661,712	4,187,155
Investments	15,703,662	16,001,806	17,058,664	18,817,978
Advances	31,992,692	36,548,900	41,826,836	47,731,084
Fixed assets	423,818	457,722	498,551	546,969
Other assets	3,970,616	4,739,270	5,808,360	7,150,645
Total assets	55,169,784	61,292,288	68,854,128	78,433,832
Deposits	44,237,776	49,420,872	55,578,044	63,973,384
Borrowings	4,931,352	5,111,263	5,450,493	5,812,537
Other liabilities and provisions	2,724,572	2,999,689	3,584,730	3,871,076
Share capital	8,925	8,925	8,925	8,925
Reserve & surplus	3,267,160	3,751,538	4,231,932	4,767,907
Total equity & liabilities	55,169,784	61,292,288	68,854,128	78,433,832
% Growth	10.6	11.1	12.3	13.9

Source Company data, I-Sec research

Exhibit 16: Growth ratios

(% , year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Interest Income	20.0	9.9	6.6	11.2
Operating profit	23.3	11.8	5.1	10.1
Core operating profit	31.6	(0.6)	7.4	10.4
Profit after tax	58.6	20.5	(0.8)	11.6
EPS	58.6	20.5	(0.8)	11.6
Advances	17.0	14.2	14.4	14.1
Deposits	9.2	11.7	12.5	15.1
Book value per share	16.8	16.2	13.8	13.5
Adj Book value per share	20.4	17.3	14.3	13.8

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
No. of shares and per share data				
No. of shares (mn)	8,925	8,925	8,925	8,925
Adjusted EPS	56.3	67.8	67.3	75.1
Book Value per share	336	390	444	504
Adjusted BVPS	318	373	426	485
Valuation ratio				
PER (x)	10.3	8.5	8.6	7.7
Price/ Book (x)	1.7	1.5	1.3	1.1
Price/ Adjusted book (x)	1.3	1.1	0.9	0.7
Dividend Yield (%)	2.0	2.3	2.3	2.6
Profitability ratios (%)				
Yield on advances	7.5	8.3	8.3	8.2
Yields on Assets	6.3	7.0	7.0	6.9
Cost of deposits	3.8	4.7	4.8	4.8
Cost of funds	3.6	4.3	4.4	4.4
NIMs	3.0	3.0	2.9	2.8
Cost/Income	53.9	54.8	55.4	55.9
Dupont Analysis (as % of Avg Assets)				
Interest Income	6.3	7.0	7.0	6.9
Interest expended	3.6	4.3	4.4	4.4
Net Interest Income	2.8	2.7	2.6	2.6
Non-interest income	0.7	0.8	0.8	0.8
Trading gains	0.0	0.2	0.1	0.1
Fee income	0.7	0.6	0.6	0.6
Total Income	3.5	3.6	3.4	3.3
Total Cost	1.9	1.9	1.9	1.9
Staff costs	1.1	1.2	1.1	1.1
Non-staff costs	0.8	0.8	0.8	0.8
Operating Profit	1.6	1.6	1.5	1.5
Core Operating Profit	1.6	1.5	1.4	1.4
Non-tax Provisions	0.3	0.2	0.3	0.3
PBT	1.3	1.4	1.2	1.2
Tax Provisions	0.3	0.4	0.3	0.3
Return on Assets (%)	1.0	1.0	0.9	0.9
Leverage (x)	18.9	18.0	17.5	17.4
Return on Equity (%)	18.1	18.7	16.1	15.8
Asset quality ratios (%)				
Gross NPA	2.8	2.3	2.1	1.9
Net NPA	0.7	0.6	0.5	0.5
PCR	76.4	76.0	76.0	76.0
Gross Slippages	0.7	0.6	0.8	0.7
LLP / Avg loans	0.3	0.3	0.5	0.4
Total provisions / Avg loans	0.6	0.3	0.5	0.4
Net NPA / Networth	6.6	5.5	5.0	4.7
Capitalisation ratios (%)				
Core Equity Tier 1	10.3	10.7	10.7	10.5
Tier 1 cap. adequacy	12.1	12.3	12.1	11.7
Total cap. adequacy	14.7	14.6	14.1	13.4

Source Company data, I-Sec research

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